

## Message Text

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ACTION NEA-10

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C O N F I D E N T I A L DACCA 1052

E.O. 11652: GDS  
TAGS: EFIN, MPOL, BG  
SUBJECT: BANGLADESH BUDGET: DEFENSE EXPENDITURES AT MID-YEAR

REF: A. 76 DACCA 3870 B. DACCA 949

1. SUMMARY: WE HAVE NO BDG FIGURES OF EXPENDITURES DURING THE CURRENT BANGLADESH FISCAL YEAR (JULY-JUNE) FOR DEFENSE SERVICES. HOWEVER, WE HAVE SOME CLUES AS TO SUCH EXPENDITURES SO FAR THIS FISCAL YEAR, WHICH SUGGEST THAT SUCH EXPENDITURES ARE WITHIN BUDGET CEILINGS. WE ALSO BELIEVE THAT THE BDG HAS NOT YET SPENT ANY LARGE AMOUNTS OF FOREIGN EXCHANGE ON MILITARY IMPORTS. END SUMMARY.

2. THE 1976/77 BUDGET ESTIMATE FOR DEFENSE SERVICES (REFTEL A) WAS \$103.5 MILLION. THE BUDGET CONTAINS NO BREAKDOWN OF THIS FIGURE AND NO DATA ON EXPENDITURES TO DATE THIS FISCAL YEAR ARE AVAILABLE. MUCH OF MILITARY SPENDING CAN BE CONCEALED IN BUDGETS AND THE BANGLADESHIS DO CONCEAL PART OF THEIR DEFENSE OUTLAYS. FOR EXAMPLE, SOME ROADS WITHIN CANTONMENT AREAS AND MILITARY HOSPITALS ARE BUILT AND FUNDED FROM THE BUDGETS OF THE MINISTRIES OF CIVIL WORKS AND HEALTH RESPECTIVELY. WHILE WE LACK PRECISE DATA, WE DO HAVE SOME CLUES TO MILITARY  
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SPENDING. THESE INCLUDE: DETAILS OF PURCHASES FROM US SUPPLIERS OF COMMUNICATIONS EQUIPMENT, INFORMATION FROM DIPLOMATIC COLLEAGUES FROM WHOSE COUNTRIES THE BDG HAS PURCHASED EQUIPMENT, VISUAL IMPRESSIONS OF CONSTRUCTION ACTIVITY, AND SOME COMMENTS BY BDG OFFICIALS.

3. DOMESTIC EXPENDITURES. WE BELIEVE THAT TO DATE

THIS FISCAL YEAR, DEFENSE SERVICES EXPENDITURES HAVE PROBABLY NOT EXCEEDED BUDGET ESTIMATES, PRORATED FOR THE FIRST SIX MONTHS. WHILE IT WOULD DOUBTLESS BE TEMPTING FOR GENERAL ZIA TO OVERSPEND ON THE MILITARY, WE BELIEVE HE HAS NOT (YET, AT LEAST) DONE SO. HE CATEGORICALLY ASSURED THE IMF MISSION LAST SUMMER THAT THE BUDGET WOULD BE HELD IN BALANCE THIS YEAR, AND SO FAR TOTAL REVENUE BUDGET EXPENDITURES, WHICH INCLUDE DEFENSE SERVICES, ARE RUNNING ON TARGET, FINANCE MINISTRY OFFICIALS BELIEVE. SECOND, INFLATION REMAINS CHECKED, AND CONTRACTORS (E.G., ON MILITARY HOUSING) ARE BEING HELD TO THEIR BIDS, WE UNDERSTAND. THERE IS A VERY CONSIDERABLE AMOUNT OF MILITARY CONSTRUCTION ACTIVITY IN EVIDENCE IN BANGLADESH, WITH OFFICERS' CLUBS, HOUSING, AND BARRACKS GOING UP APPARENTLY ALL OVER THE COUNTRY. ON ANY TRIP OUT OF DACCA, ONE SEES A GOOD DEAL OF SUCH CONSTRUCTION. THE DEFENSE SERVICES BUDGET DOUBTLESS INCLUDED SOME AMOUNT TO COVER INFLATIONARY PRICE RISES. THE JULY-DECEMBER 1976 PRICE LEVEL HAS REMAINED VERY CLOSE TO ITS 1975/76 AVERAGE, AND THAT EXTRA FOR INFLATION MAY NOT HAVE BEEN SPENT. WHILE THIS EVIDENCE IS PRETTY SCANTY, WE BELIEVE THAT TAKA EXPENDITURES HAVE, TO DATE, BEEN HELD WITHIN BUDGETED LEVELS AND, IF ANYTHING, MAY BE BELOW THOSE LEVELS.

#### 4. FOREIGN EXCHANGE (FOREX) EXPENDITURES.

(A) GENERAL. IMF OFFICIALS HERE ARE NO MOVEMENTS  
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IN THE FOREX BUDGET TO DATE WHICH COULD COVER ANY EXTRAORDINARY MILITARY OUTLAYS. HOWEVER, THERE IS A RUMOR, BUT NO CONFIRMATION THERE, THAT SAUDI ARABIAN KING KHALED MAY HAVE PROVIDED DOLS 30 MILLION EQUIVALENT IN FOREX FOR USES APPROVED BY MAJOR GENERAL ZIA PERSONALLY. SUCH A FUND, HELD ABROAD, COULD WELL NOT BE INCLUDED IN THE FOREX BUDGET.

(B) NO EXTRAORDINARY EXPENDITURES KNOWN. THE THREE SERVICES ARE OBTAINING EQUIPMENT FROM ABROAD UNDER VARIOUS ARRANGEMENTS AND THESE INVOLVE SOME FOREX EXPENDITURE, BUT WE DO NOT KNOW OF ANY PURCHASES COSTING PARTICULARLY LARGE SUMS.

(I) ARMY. THE ARMY IS TO BUILD AND STAFF A STAFF COLLEGE, WITH UK ASSISTANCE. A POUND STERLING 1.5 MILLION (APPROXIMATE) AGREEMENT HAS BEEN SIGNED. THE ARMY IS ALSO BUYING COMMUNICATIONS EQUIPMENT (POUNDS TWO MILLION) FROM THE UK AND THE US (\$ ONE MILLION OR SO) AND TRUCKS AND OTHER TRANSPORT EQUIPMENT FROM JAPAN. BASED ON OUR KNOWLEDGE OF AN UNSUCCESSFUL UK BID TO

SUPPLY SUCH TRANSPORT EQUIPMENT, THESE PURCHASES FROM JAPAN COULD RUN TO AS MANY AS 200 TRUCKS AND 200 JEEPS, BUT MIGHT BE ONLY HALF THAT AMOUNT. THE COST THIS YEAR COULD BE \$3 MILLION OR SO.

(II) NAVY. ADMIRAL KAHN HAS TAKEN DELIVERY OF A UK FRIGATE (PARA 5 REFTEL A) AT A TOTAL COST STILL TO BE DETERMINED (TRAINING AND SPARES ARE INVOLVED) BUT WHICH WILL PROBABLY RANGE BETWEEN \$3 MILLION AND \$5 MILLION, PAYABLE OVER FIVE YEARS. ONLY THE 20 PERCENT DOWN-PAYMENT WAS DUE IN 1976/77. A FURTHER SIMILAR SALE IS HIGHLY PROBABLE BY END-JUNE.

(III) AIR FORCE. THE AIRFORCE HAS PURCHASED SIX BELL 212 HELICOPTERS FOR A TOTAL OF \$7.2 MILLION PAYABLE OVER FIVE YEARS AND IS CONSIDERING BUYING AN ADDITIONAL NUMBER FROM SIKORSKY. ALL SIX BELL HELICOPTERS HAVE ARRIVED IN BANGLADESH. THE AIR FORCE IS ALSO OBTAINING 14 MIG 19'S FROM THE PRC AND THESE  
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ARE EXPECTED THIS FISCAL YEAR, BUT WE DO NOT KNOW WHETHER ANY OUTLAY WILL BE MADE THIS YEAR. THE COST COULD RUN QUITE HIGH, DEPENDING ON THE PRC-BDG PAYMENT TERMS OR AID ARRANGEMENT, BUT COULD POSSIBLY BE ZERO IF THE PRC PROVIDES SUCH AIRCRAFT AS A GRANT.

(C) TOTAL. PUTTING ALL THIS TOGETHER, TOTAL FOREX OUTLAYS FOR DEFENSE PURCHASES DURING 1976/77 SEEM UNLIKELY TO EXCEED \$15 TO \$20 MILLION, WITH THE IMPORTANT EXCEPTIONS OF THE POSSIBLE SAUDI FUNDS AND THE FINANCING OF THE AIR FORCE FIGHTER PLANES. THE PRC TERMS FOR ITS MIG 19'S COULD RAISE THIS ESTIMATE SIGNIFICANTLY. ALSO, THE ABOVE DISCUSSION OMITTS THE COST OF THE BANGLADESH BIMAN (GOVERNMENT AIR LINE) PURCHASE OF A BOEING 707 FROM CANADA, WHICH PLANE COULD CONSIDERABLE BE PRESSED INTO MILITARY SERVICE IN AN EMERGENCY.  
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